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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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Internal Audit Executive

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August 27, 2009

Rodney Crim, Executive Director
St. Louis Development Corporation
1015 Locust St.
St. Louis, MO 63101

RE: Community Development Block Grant (CDBG), (Project #2009-CDA56)

Dear Mr. Crim:

Enclosed is a report of the fiscal monitoring review of the St. Louis Development Corporation, CDBG Program, for the period January 1, 2008 through December 31, 2008. The scope of a fiscal monitoring review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of St. Louis Development Corporation. The fieldwork was completed on April 23, 2009.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the City of St. Louis, Community Development Administration (CDA) to provide fiscal monitoring to all federal grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

A handwritten signature in black ink that reads "Kenneth M. Stone".

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Lorna Alexander, Special Assistant for Development, CDA
Jill Claybour, Acting Executive Director, CDA
Charles Hahn, Controller, St. Louis Development Corporation



CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**ST. LOUIS DEVELOPMENT CORPORATION (SLDC)
CONTRACTS #08-50-03, #08-50-06, #08-70-35,
#08-90-90, #RP-22, AND #RP-24
CFDA #14.218**

FISCAL MONITORING REVIEW

JANUARY 1, 2008 THROUGH OCTOBER 31, 2008

PROJECT #2009-CDA56

DATE ISSUED: August 27, 2009

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
ST. LOUIS DEVELOPMENT CORPORATION
FISCAL MONITORING REVIEW
JANUARY 1, 2008 THROUGH DECEMBER 31, 2008**

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INTRODUCTION

Background

Contract Name: St. Louis Development Corporation

Contract Numbers: 08-50-03, 08-50-06, RP-24, 08-70-35, and 08-90-90, RP-22

CFDA Number: 14.218

Contract Periods: January 1, 2008 through December 31, 2008

Contract Amounts: \$295,000 (RP-22)
\$117,608 (RP-24)
\$1,750,000 (08-50-03)
\$2,567,723 (08-50-06)
\$700,000 (08-70-35)
\$700,000 (08-90-90)

These contracts provided Community Development Block Grant (CDBG) funds to St. Louis Development Corporation (Agency) for assistance in further development of housing in the St. Louis area by providing the funds necessary to acquire land and plan for projects associated with these contracts.

Purpose

The purpose was to determine the Agency's compliance with federal, state and local Community Development Organization (CDA) requirements for the period January 1, 2008 through December 31, 2008 and make recommendations for improvements as necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grants administered by CDA. Evidence was tested supporting the reports the Agency submitted to CDA and other procedures were performed as considered necessary. The fieldwork was completed on April 23, 2009.

Exit Conference

An exit conference was conducted at St. Louis Development Corporation on August 10, 2009. St. Louis Development Corporation was represented at the exit conference by Chris Maguire, Accounting Manager, Charlie Hahn, Controller, and Leslye Yancey-Mitchell, Associate City Counselor. The Internal Audit Section was represented by Christopher Whitmore, Auditor I, Jeremy Holtzman, Auditor II, and Dr. Kenneth Stone, Internal Audit Executive.

INTRODUCTION

Management's Responses

Management's responses to the observations and recommendations noted in the report were received on August 17, 2009, and have been incorporated into the report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal, state and local CDA requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project #2008-41 issued on September 10, 2008 contained two observations:

1. SLDC did not submit monthly financial statements in a timely manner **(Repeated. See Current Observation #4)**
2. Opportunity to ensure full compliance with contract agreement conditions precedence to loan. **(Resolved)**

A-133 Status

The Agency expended \$500,000 or more in federal funds for the year ended June 30, 2008; therefore, it was required to have a single audit in accordance with OMB Circular A-133.

A-133 report, dated November 21, 2008, rendered an unqualified opinion regarding compliance with requirements applicable to major federal awards. There were no reportable conditions found in the A-133 report.

The auditors issued an unqualified opinion on the general purpose financial statements. The Agency did not qualify as a low-risk auditee.

It is recommended that the A-133 report be accepted.

Summary of Current Observations

Recommendations were made for the following observations, which if implemented, could assist the Agency in fully complying with federal, state and local CDA requirements.

1. Opportunity to improve internal controls over cash retention
2. A conflict of interest exists on the Agency's board of directors
3. The Agency's sick leave policy did not meet CDA requirements
4. Opportunity to submit monthly financial reports in a timely manner

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANGEMENT'S RESPONSES

1. Opportunity to Improve Internal Controls Over Cash Retention

On July 8, 2008, the Agency received CDBG (federal) funds of \$300,000 for the purpose of providing a forgivable loan to one of its participants in the Business Development Support/ Retention Program. The Agency, however, did not disburse the funds to the participant because the participant failed to coordinate the closing on the loan. After the three working-day period lapsed, the Agency failed to return the money to the Comptroller's Office. In fact, as of March 16, 2009, more than eight months later, the Agency still had not returned the \$300,000 of the federal funds to the Comptroller's Office.

Section 2.10 of the CDA Operating Procedures Manual requires an operating agency to disburse the federal funds within three working days of receiving them. If the funds cannot be disbursed within the three-day period, the funds must be returned immediately to the Comptroller's Office.

The Agency did not have an effective system of internal control to ensure its compliance with the federal funds disbursement and retention requirements of the CDA Operating Procedures Manual.

Failure to return the unused grant funds in compliance with the time requirements of the CDA Operating Procedures Manual may cause other needy small businesses denied of the opportunity to participant in the Business Development Support/Retention Program due budget constraints. In addition, holding cash, especially in large amounts for so long, increases the risk of its misappropriation.

Recommendation

It is recommended that the Agency return the \$300,000 to the Comptroller's Office immediately. It is also recommended that the Agency establish a system of internal control to ensure its compliance with the CDA federal funds retention and disbursement requirements.

Management's Response

The Local Development Company received \$300,000 on July 10, 2008 to fund a forgivable loan to an existing city business. A check for the loan was written within the "three working day" time period but unfortunately the loan never closed and the loan funds never actually disbursed. Although the funds have been returned to the Comptroller's Office we acknowledge our delay in returning the funds and agree to enforce/comply with the "three working day disbursement rule."

2. A Conflict of Interest Exists on the Agency's Board of Directors

Paragraph three of the Agency's Bylaws states that members of the board of directors shall consist of the chairman of the Ways and Means Committee and the chairman of the Housing and Urban Development Zoning Committee. It also states that the mayor of the City of St. Louis shall elect one member of the board to serve as the chairman of the board.

The Land Clearance for Redevelopment Authority (LCRA) of the City of St. Louis, a subsidiary of the Agency, had the treasurer of the City of St. Louis as a member of its board of directors. Additionally, the Agency had three City of St. Louis officials on its board of directors; the deputy mayor, Aldermen of Wards 8 and 13. It was noted that the Agency was also received a citywide wage increase, which was awarded to the City employees in October 2008.

Section 6.4 of the CDA Operating Procedures Manual prohibits conflicts of interest for governmental and public agency receiving federal funds. The conflict of interest provisions apply to any person who is an employee, agent, consultant, officer, or elected official or appointed official of the City of St. Louis. None of the described persons who are in a position to participate in a decision-making process or gain inside information with regard to CDBG activities may have an interest in any contract, subcontract or agreement during their tenure or for one year thereafter.

The Agency did not have an effective system of internal control to ensure its compliance with the conflicts of interest requirements of the CDA Operating Procedures Manual.

The city officials that are on the LCRA and the Agency board of directors, play key roles in the decision-making process regarding federal fund allocations. Having such authoritative members on the LCRA and SLDC boards gives the appearance that the Agency has an unfair advantage in competing for those federal funds.

Recommendation

It is recommended that a person who participates or who is in a position to participate in the Agency's decision-making process of allocating federal funds or gain inside information with respect to CDBG activities, should sign a conflict of interest statement recusing themselves of any vote in their official duties that may favorably impact the Agency.

Management's Response

LCRA's & SLDC's conflict of interest statements will be amended to reflect the recommended language in the report.

3. The Agency's Sick Leave Policy Did Not Meet CDA Requirements

The Agency's sick leave policy states that employees will receive regular pay for the time they are out sick or caring for a sick family member for a maximum of five episodes of illness per calendar year. The policy had no requirement on length of employment in order to be eligible for this benefit. Additionally, there was no maximum number of hours allowed per episode or calendar year. It was noted that the total sick leave for the entire Agency in 2008 was 4,313 hours. The average sick leave taken by each employee was 64.4 hours. More than 28% of all employees actually took more sick leave than the average. The following are employees that were paid 100% through CDBG funding and took 40 hours or more of sick leave in 2008:

Position	2008 Sick Hrs
Maintenance Laborer	613.5
Commercial District Manager	436.0
Work Program Administrator	82.5
Commercial District Manager	62.0
Commercial District Manager	56.0
Maintenance Coordinator	40.0
Total 2008 Sick Hrs	1,290.0

Section 5.2 of the CDA Operating Procedures Manual states that any time off with pay must be supported by cumulative records displaying time off earned less time off allowed.

The Agency did not have an effective sick leave policy in place to restrict and monitor the maximum number of sick leave that can be taken by the Agency' employees

Without requiring employees to accumulate sick leave and not restricting the number of hours that may used for sick leave makes the Agency vulnerable to the possible abuse of sick leave taken by its employees.

Recommendation

It is recommended that the Agency use an accrual method that restricts the maximum number of hours an employee may accumulate as its basis for its employee's sick leave eligibility. Additionally, it is recommended that the Agency meet with CDA to determine if the salaries paid to employees that have taken excessive sick leave should be paid back to CDA.

Management's Response

A new sick leave policy was implemented in January of 2009 and includes, among other things: A maximum number of sick leave hours allowed, who is eligible for sick leave benefit, and procedures for employees to follow when taking sick leave.

4. Opportunity to Submit Monthly Financial Reports in a Timely Manner

The Agency submitted 41 of the 72 (or 57%) monthly financial reports late in 2008. The average number of days late was 31.

Section 6 of the CDA contract states that the Operating Agency shall be required to submit monthly financial reports as specified in the Operating Agency Fiscal Procedures Manual, by no later the 10th calendar day following the reporting month to the Comptroller's Office- Federal Grants Section.

The Agency's prior audit report was not issued until September 10, 2008; therefore, members of management were not aware that its monthly financial reports were being submitted late.

Non-compliance with the CDA regulations may cause a delay or suspension in the processing of reimbursement requests resulting in interruption in the Agency's services to its clients.

Recommendation

It is recommended that the Agency comply with CDA regulations and submit its monthly financial reports by the 10th day of the month following the report period end for all current and future contracts.

Management's Response

The Agency financials were not submitted timely as was the finding last year. With last years report this finding was addressed and from that date (9/10/08) every financial has been submitted on time. All instances of non compliance sited in this year's review occurred prior to the issuance/receipt of last year report and as such we feel we have this issue under control.